

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on April 9, 2001 at 9:00 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Alvin Ellis Jr., Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Mack Cole (R)
Sen. Pete Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Emily Stonington (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Deb Thompson, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: None
Executive Action: HB 124 HB 617 HB 636

EXECUTIVE ACTION ON SENATE BILL 124

Two proposals were presented from the subcommittee, one from **SENATOR STONINGTON** and one from **SENATOR ELLIS**.

SENATOR STONINGTON distributed written testimony.

EXHIBIT (tas80a01) She also handed out a chart of HB 124 Local Government Funding. **EXHIBIT (tas80a02)** {Tape : 1; Side : A;
Approx. Time Counter : 0 - 10.7}

SENATOR ELLIS noted there were amendments, four of which were adopted previously. He pointed out the statement of intent would indicate to future Legislatures the foundation between the state, counties, cities and school districts. A 60% vote would be needed to change the entitlement share or the general outline of revenue dispersements and help with the confidence factor. There were dozens of technical amendments that made sure that the sections in the bill do not conflict with each other or other sections of law. Off road vehicles like snowmobiles, boats, and motorcycles whose revenues would allow themselves to be taxed so they would get certain services out of parks, are still earmarked and are in statutory appropriation. The Mangan amendment was put on which allowed for a growth factor for the block grants that go to schools. It does not increase entitlements to schools. It is used much like mills to counter balance the FTV that a school gets. In effect it is like property tax relief. **Mr. Heiman** distributed the amendments that were recommended by the subcommittee. **EXHIBIT (tas80a03)**

SENATOR ELLIS MOVED THE BILL AND THE AMENDMENTS #012460.alh. He noted this would assume a response for district courts and welfare costs. This would assume the costs of big cases, which are usually a financial burden to small counties. Welfare is also the Legislature's responsibility to fit within Montana's ability to fund. It is important to simplify the process. It also provides counties and cities to share in the growth that is occurring in Montana. **{Tape : 1; Side : A; Approx. Time Counter : 10.7 - 21}**

SENATOR STONINGTON commented she was skeptical about the bill because she did not trust the state Legislature to fully take care of this. She had seen too many times when the Legislature said they would reimburse or hold to commitments and put flowery words in the statutes and then did not. She supported the bill and felt this was the best way for local governments and the state to deal with its commitment to local government. Left over from two years ago in SB 184, there is a huge chunk of money - \$75 million dollars, that is essentially local governments. We owe this to local governments because of actions taken by the state that undermined their ability to raise that revenue and part of this is being phased out over the next five years. Secondly, there is a well thought out mechanism in this bill called an entitlement share. That gives local government a predictable, stable source of revenue coming from the state that is really their money. Third, local governments are taking a risk by giving up some control over revenue sources that are dedicated to local governments, and redistributing that statewide. A partnership has formed that says local governments are willing to place this risk in the hands of the state and the

state is willing to uphold that bargain. There are risks on both sides. Without local governments ability to raise their own taxes, they don't have the ability to fund court costs. Other than the District Courts, the growth factor is not out of the General Fund. It is really a redistribution of local government money. There is growth in that money with licensing of vehicles and growth in the financial institutions, which is not even shown on the projections. There will be growth in gaming money and the local governments have said they would be willing to give the control of that money to the state in return for their redistributing it to local governments and letting them share in that growth throughout the state. That is what is called the growth factor in this bill that starts out at 3% and is based on a combination of CPI and wage growth in the state and redistributed based on population and a pro-rata share basis.

{Tape : 1; Side : A; Approx. Time Counter : 21 - 26}

SENATOR COLE said he represented six counties and was quite concerned about the livestock being protected. He believed the amendments had improved the bill, especially the statement of intent.

The question was called on the amendments. The amendments were **ADOPTED** 9-0.

SENATOR ELLIS MOVED THE BILL AS AMENDED. ***{Tape : 1; Side : A; Approx. Time Counter : 26 - 30}***

SENATOR GLASER said this bill was the second biggest mistake made by the Legislature. He felt SB 184 was the biggest mistake as it shifted tax burdens. SB 184 is now locked in place. SB 124 is a mistake mainly because it builds on past mistakes. ***{Tape : 1; Side : B; Approx. Time Counter : 0 - 3.9}***

SENATOR ELLIS commented that this was a valid point and did make our tax structure more rigid. Tax structure does not change very easily anyway and is only subject to a little tweaking here and there. He saw SB 184 differently. The changes made last Session, taking business equipment taxes down to the level that class 4 residential property taxes are taxes. The changes had been positive changes. To a certain extent, this bill addresses the needs of those governments and gives them a certain assurance that what is done in the future would not be to the detriment to those local governments. The people back home value the services that they get from local government much higher than the services they get from the state government. This gives those people who try to provide the services, some level of assurance - especially in Eastern Montana, to continue to provide those services.

SENATOR STONINGTON referred to the chart and discussed what the bill did financially. The impact on the General Fund, annually over the first year, was positive. She noted that local governments should grow with the economy of the state and that was the way the bill was structured, to give them that opportunity. *{Tape : 1; Side : B; Approx. Time Counter : 3.9 - 7.9}*

The question was called on the bill as amended. The motion **PASSED** 8-1 with one no vote by **SENATOR GLASER**. **SENATOR ELLIS** would carry the bill.

EXECUTIVE ACTION ON HOUSE BILL 617

Mr. Heiman distributed an amendment #061705.ajm.

EXHIBIT(tas80a04)

SENATOR ELLIS MOVED THE AMENDMENT. The question was called on the amendment. The motion was **ADOPTED** unanimously. *{Tape : 1; Side : B; Approx. Time Counter : 16.8 - 17}*

SENATOR ELLIS MOVED THE BILL AS AMENDED. **SENATOR ELLINGSON** said he could not vote for the bill in light of the latest fiscal report which showed a \$63 million dollar deficit. This had limited impact on this biennium but future tax years would be impacted. There was a need for reform of the income tax system.

SENATOR ELLIS MOVED TO TABLE. The motion **PASSED** 9-0.

EXECUTIVE ACTION ON HOUSE BILL 636

SENATOR COLE MOVED DO PASS. **Mr. Heiman** distributed an amendment by the sponsor **EXHIBIT**(tas80a05) and one from the Department of Labor. **EXHIBIT**(tas80a06)

SENATOR STONINGTON MOVED THE AMENDMENT #063602.adb. She commented that this amendment was on behalf of the low income people who could then qualify for a refund for sales tax paid. The question was called. The amendment was **ADOPTED** unanimously.

SENATOR ELLIS MOVED THE AMENDMENT (from the Department of Labor-Exhibit 6). The question was called. The motion was **ADOPTED** unanimously.

SENATOR COLE MOVED THE BILL AS AMENDED. **SENATOR GLASER** commented that the bill had a major flaw which was the definition of a

corporation and who pays the tax. He gave a farm example. **{Tape : 1; Side : B; Approx. Time Counter : 21.7 - 27.4}**

SENATOR ELLINGSON said he could not support the bill. The tax on corporations were a problem. Also, he was reluctant to support a sales tax for the state which was regressive. There is a realistic need to look at new sources of revenue. However, this is regressive. The only revenue source that is progressive is the income tax. There is a general consensus that income tax is a fair tax. There are lots of complaints about the imposition of a tax on property because property does not always produce income. You can be running a loss and still have to pay taxes on your property. The income tax is only assessed when you do make money. When you are making money, you have the responsibility to contribute something to the structure of state government so that state government can perform the functions that we expect of it. Eliminating the income tax and tying it to a sales tax is a feature that makes this bill unworkable.

The question was called. The motion **FAILED** 9-0. **SENATOR ELLIS MOVED TO TABLE.** The motion **PASSED** 9-0.

ADJOURNMENT

Adjournment: 10:04 A.M.

SEN. BOB DEPRATU, Chairman

DEB THOMPSON, Secretary

BD/DT

EXHIBIT (tas80aad)